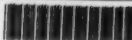


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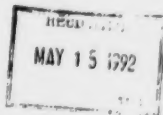


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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20540

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 1992

Commission file number 0-13978

AKORN, INC.

(Exact name of registrant as specified in its charter)

Louisiana

(State of incorporation)

73-0717400

(I.R.S. Employer Identification No.)

100 Akorn Drive, Abita Springs, Louisiana 70430
(Address of principal executive offices)

PROCESSED BY

MAY 18 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Registrant's telephone number, including area code: (504)863-9300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes ☒ No ☐

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

ClassOutstanding as of May 11, 1992

Common stock, no par value

12,606,421

Total of sequentially numbered pages 12.
Index begins on sequential page N/A.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

The following financial statements are provided on the page numbers indicated below:

Condensed Consolidated Balance Sheets - March 31, 1992 and June 30, 1991	2
Condensed Consolidated Statements of Operations - Three months and nine months ended March 31, 1992 and 1991	4
Consolidated Statements of Shareholders' Equity - Nine months ended March 31, 1992 and 1991	5
Condensed Consolidated Statements of Cash Flows - Nine months ended March 31, 1992 and 1991	7
Notes to Condensed Consolidated Financial Statements	8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information called for by this item is provided on page 12

AKORN, INC.

CONDENSED CONSOLIDATED BALANCED SHEETS

	March 31, <u>1992</u> (unaudited)	June 30, <u>1991*</u> (as restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,227,114	\$ 1,231,700
Short-term investments		916,497
Accounts receivable (less allowance for bad debts of \$518,479 and \$489,966 at March 31 and June 30, respectively)	1,922,922	2,296,214
Inventory	3,210,530	2,128,113
Refundable income taxes	1,365,225	3,340,964
Prepaid expenses & other assets	<u>236,673</u>	<u>297,977</u>
TOTAL CURRENT ASSETS	9,962,364	10,211,666
OTHER ASSETS		
Investment in annuity and life insurance contracts	39,462	794,508
Long-term investments	350,000	1,457,745
Intangible Assets	124,202	201,421
Other	<u>36,096</u>	<u>581,095</u>
	549,760	3,034,769
PROPERTY, PLANT AND EQUIPMENT	9,623,555	9,663,832
Accumulated depreciation	<u>(4,842,437)</u>	<u>(4,517,341)</u>
	4,781,118	5,146,491
TOTAL ASSETS	<u>\$15,295,242</u>	<u>\$18,392,815</u>

	March 31, <u>1992</u> (unaudited)	June 30, <u>1991*</u> (as restated)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current installments of long-term debt	\$ 76,387	\$ 1,881,066
Current installments of stockholder notes payable		785,400
Short-term note payable	1,500,000	
Accounts payable	2,232,220	1,023,360
Accrued product recall expenses	2,265,426	489,348
Accrued litigation judgment	2,081,900	
Accrued expenses and other liabilities	<u>2,710,200</u>	<u>2,145,511</u>
TOTAL CURRENT LIABILITIES	10,875,133	6,305,685
DEFERRED INCOME TAXES PAYABLE		
		514,571
LONG-TERM DEBT		
	958,621	955,498
SHAREHOLDERS' EQUITY		
Common stock, no par value-- authorized 20,000,000 shares; issued 13,116,673 and 12,865,673 shares at March 31 and June 30, respectively; outstanding 12,605,421 and 12,430,561 shares at March 31 and June 30, respectively	10,701,845	9,525,845
Treasury stock, at cost-- 420,252 and 435,112 shares at March 31 and June 30, respectively	(807,433)	(834,696)
Retained earnings (deficit)	<u>(6,434,924)</u>	<u>1,593,912</u>
TOTAL SHAREHOLDERS' EQUITY	<u>3,459,488</u>	<u>10,586,061</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		
	<u>\$15,293,242</u>	<u>\$16,397,815</u>

*Condensed from audited consolidated financial statements as restated for acquisition of Taylor Pharmaceutical Company (see Note D).

See notes to condensed consolidated financial statements.

AKORN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three months ended March 31,		Nine months ended March 31,	
	<u>1992</u>	<u>1991</u> (as restated)	<u>1992</u>	<u>1991</u> (as restated)
Net Sales	\$ 4,560,361	\$ 4,551,267	\$13,136,587	\$14,035,246
Cost of sales	<u>2,929,706</u>	<u>2,752,754</u>	<u>8,568,508</u>	<u>8,378,626</u>
GROSS PROFIT	1,630,655	1,798,513	4,568,059	5,656,620
Selling, general and administrative expenses	1,213,810	1,287,610	4,210,339	3,951,109
Other operating expenses	150,205	275,921	400,181	788,143
Cost to reorganize manufacturing operations	5,302,408		5,302,408	
Finder's fee and other acquisition costs	1,314,614		1,314,614	
Provision for litigation judgment	<u>236,900</u>	<u>1,583,531</u>	<u>2,081,900</u>	<u>4,739,252</u>
NET OPERATING INCOME (LOSS)	(6,578,282)	234,982	(8,741,383)	917,368
Interest expense	(58,173)	(89,805)	(220,782)	(296,281)
Interest and other income	<u>51,746</u>	<u>112,598</u>	<u>125,288</u>	<u>170,304</u>
INCOME (LOSS) BEFORE TAXES	(6,584,709)	257,775	(8,836,877)	791,391
Income taxes (benefit)	<u>(735,438)</u>	<u>204,701</u>	<u>(804,583)</u>	<u>497,682</u>
NET INCOME (LOSS)	<u>\$ (5,849,271)</u>	<u>\$ 53,074</u>	<u>\$ (8,032,294)</u>	<u>\$ 293,709</u>
Per Share:				
NET INCOME (LOSS)	<u>\$ (.42)</u>	<u>\$.00</u>	<u>\$ (.59)</u>	<u>\$.02</u>
DIVIDENDS DECLARED	<u>\$ -</u>	<u>\$.03</u>	<u>\$ -</u>	<u>\$.06</u>

See notes to condensed consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS'S EQUITY

(UNAUDITED)

	Common Stock	
	Shares Outstanding	Amount
Nine Months Ended March 31, 1992:		
Balances at July 1, 1991 (as restated)	12,430,561	\$ 9,826,845
Net loss for the nine months ended March 31		
Shares issued from treasury in connection with the Company's Employee Stock Purchase Plan	4,860	
Exercise of stock options	10,000	
Shares issued as finder's fee for Taylor acquisition	<u>250,000</u>	<u>875,000</u>
Balances at March 31, 1992	<u>12,695,421</u>	<u>\$ 10,701,845</u>

Nine Months Ended March 31, 1991: (as restated)

Balances at July 1, 1990	12,124,036	\$ 9,469,107
Net income for the nine months ended March 31		
Shares issued from treasury in connection with the purchase of Opto-Pharm	200,000	
Common Stock acquired and retired	(1,000,000)	(1,510,500)
Common Stock issued for cash	1,000,000	1,489,500
Shares issued from treasury in connection with the Company's Employee Stock Purchase Plan	3,352	
Issuance of common stock		120,000
Dividends declared--\$.034 per share		
Balances at March 31, 1991	<u>12,327,388</u>	<u>\$ 9,568,107</u>

<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total</u>
\$ 1,593,912	\$ (834,606)	\$10,586,061
(8,032,294)		(8,032,294)
3,500	7,812	11,321
(51)	19,451	19,400
		<u>875,000</u>
<u>\$ (6,434,924)</u>	<u>\$ (807,433)</u>	<u>\$ 3,459,488</u>

\$ 7,522,923	\$(1,224,513)	\$15,767,517
293,709		293,709
(54,451)	396,556	342,105
		(1,510,500)
		1,489,500
(2,341)	10,086	7,745
		120,000
<u>(772,489)</u>	<u> </u>	<u>(772,489)</u>
<u>\$ 6,987,351</u>	<u>\$ (817,871)</u>	<u>\$15,737,587</u>

See notes to condensed consolidated financial statements.

AKORN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended March 31,	
	<u>1992</u>	<u>1991</u>
		(as restated)
OPERATING ACTIVITIES		
Net income (loss)	\$ (8,032,294)	\$ 293,709
Adjustments to reconcile net income (loss) to net cash provided by operating activities, net of effects from purchase of Opto-Pharm in 1990	8,855,738	1,071,364
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	823,444	1,365,073
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(547,914)	(394,136)
Acquisition of veterinary product line		(200,000)
Purchase of Opto-Pharm, net of cash acquired		31,498
Net sales (purchases) of investments	2,818,750	(629,425)
Other		(18,953)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2,270,836	(1,211,016)
FINANCING ACTIVITIES		
Proceeds from issuance of short-term note payable	1,500,000	(250,000)
Payment on short-term note		(82,778)
Net repayments of long-term debt	(2,598,956)	120,000
Proceeds from stock issuance		(1,510,500)
Acquisition of treasury stock		1,489,500
Proceeds from sale of stock		(578,295)
Dividends paid		(810,073)
NET CASH USED BY FINANCING ACTIVITIES	(1,098,956)	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,995,324	(656,016)
Cash and cash equivalents at beginning of period	1,231,790	2,024,155
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 3,227,114</u>	<u>\$ 1,368,139</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 337,495	\$ 247,628
Cash paid during the period for income taxes		416,000

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Akorn, Inc. (the "Company") and its wholly-owned subsidiaries, Spectrum Scientific Pharmaceuticals, Inc. ("Spectrum"), Walnut Pharmaceuticals, Inc. ("Walnut") and Taylor Pharmaceutical Company ("Taylor"). Intercompany transactions and balances have been eliminated in consolidation.

These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month and nine month periods ended March 31, 1992, are not necessarily indicative of the results that may be expected for the year ending June 30, 1992. For further information, refer to the consolidated financial statements and footnotes for the year ended June 30, 1991, included in the Company's Annual Report to Shareholders.

NOTE B - EARNINGS PER SHARE

Earnings per share are based upon the weighted average number of common shares outstanding. The computation of the weighted average number of shares outstanding includes the dilutive effect of stock options and warrants. The weighted average number of shares outstanding used in the per share computations were 13,919,945 shares and 13,015,354 shares for the three months ended March 31, 1992, and 1991, respectively, and 13,647,181 shares and 12,656,747 shares for the nine months ended March 31, 1992 and 1991, respectively.

NOTE C - REORGANIZATION OF MANUFACTURING OPERATIONS

For the fiscal year ended June 30, 1991, the Company had recorded expenses associated with the reorganization of its manufacturing operations, including the costs of discontinuing operations at Walnut, its manufacturing subsidiary and estimated costs of product recalls then in progress. Since that time the Company has been in discussions with the United States Food and Drug Administration ("FDA") regarding the closure of the facility and a review of manufacturing practices which existed at the facility during its operations. As a result of further reviews by Company personnel, consultants and the FDA, the Company has recorded a change in its estimated costs of closure of the facility and costs of product recalls in the three month period ended March 31, 1992. These changes in estimated costs of approximately \$3.9 million (\$.26 per share) include additional estimated recall costs (\$2.0 million), additional write downs of property, plant and equipment and inventories (\$1.1 million), and additional estimated costs of closing the facility (\$700,000). The additional estimated recall costs should be sufficient to absorb cost of recalls in progress and of all product previously produced by Walnut which presently remains in the field, should it become necessary. These changes in estimates are included in the costs of reorganizing manufacturing operations for the three months ended March 31, 1992. In addition, approximately \$200,000 of costs incurred in the six month period ended December 31, 1991 were reclassified to costs of reorganizing manufacturing operations.

In January, 1992 the Company acquired Taylor Pharmaceutical Company, a Decatur, Illinois contract manufacturer of sterile pharmaceuticals (see Note D). Akorn plans to transfer the manufacture of its products to Taylor, while continuing the contract manufacturing operations now conducted there. Akorn began to phase in the manufacture of its product line into the Taylor operations beginning in February, 1992. Those Akorn products which do not require prior approval by the FDA could begin to be manufactured and distributed at the acquired facilities beginning in the first quarter of fiscal 1993. Manufacturing of existing products for which Akorn holds Abbreviated New Drug Application approvals could not begin at the Taylor facilities until Akorn obtains FDA approval. This approval process, which is currently in process, will require significant time and effort. With a new facility in place to transfer the approvals, the Company has estimated the cost of transferring the approvals to the Taylor facility to be approximately \$1.3 million. This estimate is included in the cost of reorganizing manufacturing operations for the three months ended March 31, 1992.

NOTE D - ACQUISITION OF TAYLOR PHARMACAL COMPANY

On January 15, 1992, the Company acquired Taylor Pharmaceutical, Inc. in a business combination accounted for as a pooling-of-interests. Taylor is a contract manufacturer of sterile pharmaceuticals, which it produces and delivers pursuant to contracts with third parties. Pursuant to the merger agreement, the Company delivered 926,763 shares of its common stock to the Taylor shareholders in exchange for all of the outstanding stock of Taylor. Of the shares issued in the merger agreement, 922,500 shares have been held in escrow pending the settlement of a default judgement against Taylor entered on December 8, 1991 in the amount of \$1,881,900, including interest accrued through March 31, 1992 (see Note H). To the extent that Taylor succeeds in having this judgement vacated or in obtaining reimbursement of Taylor's expenses related to this judgement, Taylor shareholders will receive shares of Akorn common stock, currently held in escrow, up to the maximum amount of shares allowed.

The Company's financial statements as contained herein have been restated to include the results of Taylor for all periods presented. Combined and separate results of Akorn and Taylor are as follows (in thousands):

	Akorn	Taylor	Adjustments	Combined
Three months ended March 31, 1992 (unaudited):				
Net sales.....	\$ 3,275	\$ 1,294	\$ -	\$ 4,569
Net income (loss).....	(5,883)	(166)	-	(5,849)
Three months ended March 31, 1991 (unaudited):				
Net sales.....	\$ 3,916	\$ 635	\$ -	\$ 4,551
Net income.....	901	(269)	21	653
Nine months ended March 31, 1992 (unaudited):				
Net sales.....	\$ 9,623	\$ 3,514	\$ -	\$ 13,137
Net income (loss).....	(5,805)	(2,227)	-	(8,032)
Nine months ended March 31, 1991 (unaudited):				
Net sales.....	\$ 11,712	\$ 2,323	\$ -	\$ 14,035
Net income.....	620	(590)	64	294

The financial information presented above contains adjustments to reflect the restatement of Taylor's depreciation amounts from an accelerated method to the straight-line method.

NOTE E - ACQUISITION OF OPTOMETRIC PHARMACEUTICALS, INC.

Effective July 1, 1990, Spectrum signed an Asset Purchase Agreement to acquire certain assets and liabilities of Optometric Pharmaceuticals, Inc. ("Opto-Pharm"). Opto-Pharm, based in Tennessee, was a mail-order distributor of ophthalmic products. The acquired operations of Opto-Pharm were merged into Spectrum's operations subsequent to the acquisition.

The total cost of the acquisition was \$355,526, (including 200,000 shares of Akorn, Inc. Common Stock at \$1.63 per share).

NOTE F - INVENTORIES

The components of inventory are as follows:

	March 31, <u>1992</u>	June 30, <u>1991</u>
Finished Goods	\$ 2,540,522	\$ 1,759,287
Work in process	368,185	138,763
Raw Materials and Supplies	<u>301,823</u>	<u>220,073</u>
	<u>\$ 3,210,530</u>	<u>\$ 2,128,113</u>

The inventories are reported net of reserves for unsaleable items of \$3,126,305 and \$2,914,829 as of March 31, 1992 and June 30, 1991, respectively.

NOTE G - CURRENT AND LONG-TERM DEBT

As part of the acquisition of Taylor on January 15, 1992, the Company retired or paid down several Taylor debts. These included the paydown of \$1.5 million to the First National Bank of Decatur, payment in full of approximately \$200,000 to the Illinois Department of Commerce and Community Affairs and payment in full of approximately \$1.1 million of debt to Taylor shareholders, including interest accrued thereon. These payments were made from the Company's cash reserves and a borrowing of \$1.5 million from Hibernia National Bank under a short-term note due December 31, 1992. This note is collateralized by the Company's accounts receivables and inventories. The note bears an interest rate of Citibank prime payable monthly with no principal payments due until maturity.

As a result of the non-recurring charges recorded in the third quarter of fiscal 1992, the Company is currently and is expected to be in default of several of the financial loan covenants contained in the Hibernia loan agreement. These include a minimum net worth requirement of \$9.7 million, net income of at least \$1 for the fiscal year ended June 30, 1992 and for each of the subsequent two quarters of fiscal 1993, and a minimum current ratio of 2.0 to 1.0. In addition, Hibernia National Bank has advised the Company of the occurrence of an event of default, but has taken no steps to enforce its remedies under the loan agreement. The Company is current with regard to all debt service payments through the date of this report. The Company is currently seeking alternate financing and intends to pay out the Hibernia loan prior to its maturity.

NOTE H - LITIGATION

On November 8, 1991, a default judgment was entered against Taylor in El Paso County, Colorado for approximately \$1.8 million, including accrued interest of \$685,000, in a product liability suit that had been pending since October, 1985. The suit relates to events which occurred in 1983. Taylor has petitioned to have the judgment vacated on grounds, among others, that it did not receive proper notice of the original suit or of the default judgment and that it did not manufacture any product that was administered to the plaintiff. No showing of any improper actions on Taylor's part has been made, and the case had not gone to trial before entry of the judgment by default.

The Company intends to defend this judgment vigorously and is seeking recovery of any losses incurred from Taylor's product liability carrier, the carrier's legal counsel, and also under an indemnification agreement with the pharmaceutical company for which a product named in the suit was manufactured. Taylor's product liability carrier, while reserving its rights with respect to coverage issues, has agreed to pay Taylor's attorney's fees related to the petition to vacate the judgment. As described in Note D, any losses that may result, should the Company be unsuccessful in defending this judgment, would result in the reduction of shares issued pursuant to the acquisition of Taylor. Interest at an annual rate of 8 percent continues to accrue until settlement of the default judgment.

AKORN, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Net Sales

Consolidated net sales were relatively unchanged in the quarter ended March 31, 1992 compared to the same period in 1991. For the first nine months of fiscal year 1992, net sales were 6% lower than the same period in fiscal 1991. The sales for the quarter and nine months ended March 31, 1992 do not include any sales for Walnut Pharmaceuticals, Inc. ("Walnut") the Company's manufacturing subsidiary, the operations of which were discontinued in September 1991. Walnut had sales of \$347,000 and \$1,052,000 in the quarter and nine months ended March 31, 1991, respectively, net of intercompany eliminations. In addition, the Walnut closure created a shortage of approximately 40% of the Company's product for most of the first quarter of fiscal 1992. Alternate sources of supply were obtained for many products during the second quarter of fiscal 1992; however, products which accounted for approximately \$1.2 million in sales during fiscal year 1991 remain without a source of supply. Demand for the remainder of the Company's product line remains strong. The Company has been successful in providing alternative products to customers in order to fill some of the demand for those products with no current source of supply.

Gross Profit

Consolidated gross profit declined by 9% to \$1.6 million in the quarter ended March 31, 1992, compared to the same period of the previous year. For the first nine months of the current fiscal year, gross profit decreased 19% to \$4.6 million compared to the same period in 1991. The difference between the rates of decline in net sales and gross profit is primarily due to higher costs for products previously produced by Walnut which the Company continued to supply to its customers through alternate sources. The consolidated gross profit percentages (gross margin) for the quarter ended March 31, 1992 and 1991 were 35.9% and 39.6%, respectively. For the first nine months of fiscal 1992 and 1991 the gross margin was 34.8% and 40.3%, respectively. The Company expects that consolidated gross margins will continue to be depressed, in the short-term, due to the higher acquisition costs of its products. However, measures were implemented during the quarter ended March 31, 1992 to help stabilize the impact of these cost increases.

Operating Expenses

Operating expenses, exclusive of various one time charges discussed below, declined 13% during the quarter ended March 31, 1992, a decline of \$199,000 from the comparable quarter of the previous year. For the first nine months of fiscal 1992, operating expenses were 3%, or \$129,000 lower than the same period in fiscal 1991. The primary factors contributing to these declines was the absence of operating costs for Walnut, which totalled \$190,000 and \$521,000 in the three month and nine month periods ended March 31, 1991, respectively. Amortization expenses also declined by \$78,000 and \$201,000 in the three month and nine month periods ended March 31, 1992 due to the write down of most amortizable assets in the Walnut closure.

The decline in Walnut operating expenses and amortization expense for the nine months ended March 31, 1992 were offset by increases in expenses related to the expansion of the Company's sales and marketing effort and development of the Company's executive management team. Costs associated with these areas include salaries, taxes, benefits, travel expenses and advertising costs which increased \$489,000 for the nine month period ended March 31, 1992 compared to the comparable period in 1991. Although expansion of the Company's sales force continues and the Company has increased its advertising expenditures for the introduction of new products, increases in these areas for the three months ended March 31, 1992 were offset by declines in legal fees and director fees.

Non-recurring Charges

In the quarter ended March 31, 1992, the Company recorded several unusual or non-recurring charges related to the reorganization of its manufacturing operations. The first of the charges (as described in Note C) relates to the closure of Walnut, the Company's manufacturing facility. These costs totalling \$5.3 million included additional reserves for product recalls, write-down of property, plant, equipment and inventory, and accruals for the estimated cost of closing the facility and transferring its product approvals to the newly acquired Taylor Pharmaceutical Company ("Taylor") facility. Of the amount included in the third quarter charge, approximately \$200,000 represents a reclassification for expenses incurred in the first six months of fiscal 1992.

The Company also recorded the Taylor acquisition costs of \$1.3 million in the quarter ended March 31, 1992. The major component of these costs is 250,000 shares of Company common stock valued at \$875,000 issued to an affiliate of John N. Kapoor, the Company's Chairman, as a finder's fee for the acquisition. Of the shares issued, 125,000 shares are forfeitable should the reported market price of the Company common stock not exceed \$5 per share prior to January 15, 1996.

The Company recorded an additional \$236,000 provision during the three month period ended March 31, 1992 related to the default judgement entered against Taylor (as described further in Note H). Taylor had previously recorded a \$1.8 million provision as of December 31, 1991 related to the default judgment. The provision in the quarter ended March 31, 1992 includes interest accrued during this period and a provision for estimated legal costs to defend Taylor.

The total of these charges, exclusive of the reclassification of certain costs described above, are \$6.6 million and \$8.5 million for the three month and nine month periods ended March 31, 1992.

Interest Expense and Other Income

Interest expense declined \$32,000 or 36% in the three month period ended March 31, 1992, compared to the same period in 1991. For the first nine months of fiscal 1992 interest expense declined \$75,000 or 25% when compared to the same period in fiscal 1991. These declines are primarily due to the net reduction of approximately \$1.3 million of the Taylor debt in January, 1992.

Interest and other income declined \$61,000 or 54% in the quarter ended March 31, 1992, compared to the same quarter in 1991. For the first nine months of fiscal 1992 interest and other income was \$45,000 or 28% lower than the comparable period in fiscal 1991. These declines are primarily due to the recording of a \$41,000 gain by Taylor related to the receipt of an insurance claim during the quarter ended March 31, 1991.

Income Taxes

The effective tax (benefit) rate for the quarter ended March 31, 1992 was (11.2)% compared to an effective tax rate of 79.4% for the comparable quarter in 1991. For the first nine months of fiscal 1992 the effective tax (benefit) rate was (9.1)%, compared to an effective tax rate of 62.9% for the same period of fiscal 1991. The benefit rate for the quarter and nine months ended March 31, 1992, only includes the effect of available net operating loss carrybacks and net operating loss carryforwards to the extent such carryforwards offset deferred income taxes payable. Pursuant to Statement of Financial Accounting Standards Number 109, which is not effective as yet for the Company, additional benefits attributable to net operating loss carryforwards may be recognizable. The Company has not yet completed its analysis of the effects of this statement. As of March 31, 1992, the Company has a net operating loss carryforward of approximately \$4 million.

The effective tax rate for the three month and nine month periods ended March 31, 1991 exceed statutory rates since the operating losses of Taylor included in these periods do not reflect any income tax benefit given that Taylor was a Subchapter S corporation prior to its acquisition on January 15, 1992.

Net Loss

The net loss for the quarter and nine months ended March 31, 1992 resulted primarily from the recording of non-recurring charges related to the Walnut closure and the acquisition of Taylor as noted above. Exclusive of these non-recurring charges, the Company would have recognized net income of approximately \$45,000 and a net loss of approximately \$220,000 for the three month and nine month periods ended March 31, 1992, respectively. The reduction in earnings for the three month and nine month periods ended March 31, 1992, as compared to the same periods in 1991, are primarily due to reduced sales and increased costs of product sold, resulting from the Walnut closure.

FINANCIAL CONDITION AND LIQUIDITY

Working capital declined by \$4.8 million to a negative \$913,000 during the nine months ended March 31, 1992 when compared to the previous year end. This decline is primarily the result of the charges taken in the quarter ended March 31, 1992 for the reorganization of manufacturing operations and the Taylor acquisition. The Company has experienced an increase in cash and cash equivalents primarily due to income tax refunds received in the quarter ended March 31, 1992. This level of cash is not expected to be sufficient to fund operations beyond September 30, 1992 without additional working capital borrowings or the receipt of a significant portion of income taxes receivable from the fiscal 1992 tax return. In addition, the Company is currently in default of some of its loan covenants pertaining to its \$1.5 million short-term loan due on December 31, 1992 (see Note G). Hibernia National Bank, the holder of the note, has advised the Company of the occurrence of an event of default, but has taken no steps to enforce its remedies under the loan agreement. The Company is seeking alternate financing to pay out this short-term loan and obtain the necessary level of working capital financing to fund operations beyond September 30, 1992. The Company and Hibernia National Bank, the holder of the \$1.5 million note, are presently in discussions involving the Company's plans to retire the debt prior to its scheduled maturity.

PART II. OTHER INFORMATION

Item 3. Defaults Upon Senior Securities.

Information with respect to Registrant's default in its loan agreement with Hibernia National Bank is provided in Note G to Registrant's financial statements included in Part 1 of this report. Such information is incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

- 10.1 Loan Agreement dated as of January 10, 1992 between Akorn, Inc. and Hibernia National Bank, incorporated herein by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K dated January 15, 1992.

(b) Reports on Form 8-K.

The following is a list of reports on Form 8-K filed by Registrant during the quarter ended March 31, 1992, the items reported therein, and the financial statements filed therewith:

- (1) Form 8-K dated January 15, 1992, as amended by Form 8 dated March 27, 1992.

Item 2. Acquisition or Disposition of Assets.

Item 7. Financial Statements and Exhibits.

The following financial statements of Taylor Pharmaceutical Company were filed as part of this report:

Independent Auditor's Report

Balance Sheet as of December 31, 1991

Statement of Operations for the six months ended December 31, 1991

Statement of Shareholders' Equity for the six months ended December 31, 1991

Statement of Cash Flows for the six months ended December 31, 1991

Notes to Financial Statements.

Independent Auditor's Report

Balance Sheets as of June 30, 1991 and 1990

Statements of Operations for the years ended June 30, 1991 and 1990

Statements of Shareholders' Equity for the years ended June 30, 1991 and 1990

Statements of Cash Flows for the years ended June 30, 1991 and 1990

Notes to Financial Statements

Pro Forma Condensed Balance Sheet (Unaudited) at December 31, 1991

Pro Forma Condensed Statements of Operations (Unaudited) for the six months ended December 31, 1991 and the years ended June 30, 1991 and 1990

Notes to Pro Forma Condensed combined Balance Sheet and Statements of Operations (Unaudited)

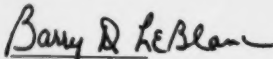
- (2) Form 8-K dated March 12, 1992.

Item 5. Other Events

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

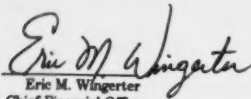
AKORN, INC.



Barry D. LeBlanc

President

(Duly Authorized Officer)



Eric M. Wingerter

Chief Financial Officer

(Principal Financial Officer)

Date: May 14, 1992